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FEDERAL JURY CONVICTS PONZI SCHEME OPERATOR WHO DEFRAUDED INVESTORS OF \$25 MILLION

James Ray Phipps Ran “Life Without Debt” Pyramid Scheme from Colleyville, Texas

DALLAS — A federal jury has convicted James Ray Phipps, on all 19 counts of an indictment charging various offenses related to an elaborate pyramid investment scheme he operated, announced U.S. Attorney Richard B. Roper, of the Northern District of Texas. After eight days of trial, that began on April 23, 2007, before U.S. District Judge Barbara M.G. Lynn, the jury found Phipps guilty of three counts of mail fraud, one count of wire fraud, 11 counts of money laundering, one count of corrupt endeavor to obstruct and impede the Internal Revenue Service (IRS) laws, and three counts of income tax evasion.

U.S. Attorney Roper said, “This guilty verdict shows that citizens of our community are sick and tired of the greed-driven actions of con-artists who think they can out-smart the law. This office is committed to using all available law enforcement resources to prosecute those who defraud individuals under the guise of legitimate business opportunities.”

“This is an example of someone dangling the promise of big bucks to lure these investors into giving up their hard-earned money,” said IRS Criminal Investigation Special Agent in Charge Erick Martinez. “Today’s verdict finally ends Mr. Phipps’ many years of fraud, and hopefully, people that participate in these “multi-level marketing” pyramid schemes, get this message: tax evasion, along with money laundering, mail fraud and obstruction of justice, is a sure ticket to many felony convictions and ultimately to jail.” Phipps, 59, was arrested in April 2006 by federal agents outside of a post office in Anniston, Alabama, on charges outlined in a federal indictment. He was released on bond, but in October 2006, a U.S. Magistrate Judge in Dallas revoked his pre-trial release and remanded him to custody, finding that he had violated a condition of his release by continuing to operate his scheme with a different name.

The government presented evidence at trial that Phipps ran a pyramid scheme known as “Life Without Debt,” from June 1996 through June 2006. He ran the scheme from his home in Colleyville, Texas, until August 2001, when he moved to Alabama to continue it there.

Phipps ran the scheme using unsolicited faxes, unsolicited mailings, weekly conference calls and live seminars that encouraged others to become members and contribute money to “Life Without Debt,” promising that in return, they would receive money for recruiting other members. Members were encouraged to contribute between \$2,000 and \$100,000. The larger the contribution to “Life Without Debt,”

the larger the supposed return of money from the plan. The \$2000 plan, for example, required each member to recruit two new members, repeating this cycle until there was an eight-level matrix with 510 members. Phipps' literature represented that "the end result is that \$2000 will grow into \$122,400 with minimum effort and absolutely no risk." Participants were then told to "compound leverage" that money into the larger investment plans. Contributions were restricted to cash and money orders only, but eventually Phipps began requiring payments in cash only.

In addition, between 2001 and 2006, Phipps modified the "Life Without Debt" program to include a \$400 level, a program he called "The 2500 Master Networker Plan," and finally a \$200 per month plan he marketed as a "retirement" plan.

From 1998 to 2006, Phipps received more than \$25 million from "Life Without Debt" members. There were more than 30,000 participants in "Life Without Debt," more than 90 percent of whom lost their money.

In every way, "Life Without Debt" was a Ponzi scheme, marketed as a multi-level marketing program, claiming to use compound leveraging to generate large sums of money for its members. Members were required to recruit two new members within 90 days of enrollment and those two members were required to recruit two additional new members. The classic "pyramid" was created with the new members positioned below the earlier established members and those initial established contributors positioned near the top of the pyramid. Phipps represented that he would collect a four percent fee for administering "Life Without Debt" and would distribute the remainder of the contributed money to people above them in the pyramid matrix, referred to as "upline" from new recruits. In fact, an expert witness, Peter J. Vandernat, Ph.D., of the Federal Trade Commission, testified that based on his examination and analysis of "Life Without Debt" promotional materials and organizational structure, that "Life Without Debt" was an illegal pyramid scheme. He further testified that all pyramid schemes are inherently fraudulent because the vast majority of participants are never in a position to recoup their initial payment.

To perpetuate the scheme and conceal its illegality, "Life Without Debt" provided purported "educational" materials to new members including literature and audiocassette tapes which were anti-government/anti-income tax, in nature. Phipps would also send lulling cash payments to "Life Without Debt" members to keep them in the scheme and entice them to recruit other potential investors.

The government showed that even after Phipps was indicted in April 2006, "Life Without Debt" continued to hold weekly conference calls to recruit new members and keep existing members informed about the plan. While monitoring these calls, it was discovered on September 26, 2006, that Phipps had designed a "new" plan for the members to use until the charges against him were settled. Members were invited to e-mail Phipps to request an instruction book, called "The Easy Wealth Book," and then send Phipps \$10 for this plan that advised participants that they could "compound" \$110 into more than \$200,000 "without a lot of work" by following Phipps' instructions.

In defiance of the Court's order's, Phipps, on October 3, 2006, and October 10, 2006, participated in two "Life Without Debt" conference calls, in which he discussed the new plan (and once again solicited funds for the publication) and his dislike for the "moron jack booted thugs in government" who had charged him with these offenses. The e-mail address used by Phipps, who before his April 2006 arrest was running for governor of Alabama as an independent candidate, was "phippsforgov@sbc.global.net." In another publication sent along with "The Easy Wealth Book," Phipps stated he believed that powerful forces in Alabama had caused his indictment and incarceration in order to keep his name off the ballot.

With regard to the tax charges alleged in the indictment, the government presented evidence that Phipps failed to report any income on a tax return since 1987 and failed to file a tax return since 1988. Further, he responded to legal IRS correspondence with frivolous arguments that he was a "sovereign" citizen not subject to the jurisdiction or tax laws of the United States.

Phipps is scheduled to be sentenced by Judge Lynn on August 22, 2007. Each mail fraud and wire fraud count carries a maximum statutory sentence of 20 years in prison and a \$250,000 fine. The money laundering counts each carry a maximum statutory sentence of 20 years in prison and a \$500,000 fine. The corrupt endeavor to obstruct and impede the Internal Revenue Service laws count carries a maximum statutory sentence of three years in prison and a \$250,000 fine and each count of tax evasion carries a maximum statutory sentence of five years in prison and a \$250,000 fine.

The case was investigated by the Internal Revenue Service - Criminal Investigations, the U.S. Postal Inspection Service and the Department of Justice (DOJ) Tax Division and is being prosecuted by Special Assistant U.S. Attorney Stephen D. Booker and Robert A. Kemins, Trial Attorney with DOJ Tax Division.

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